



Economy News

- ▶ In a bid to encourage consolidation in the sector, the Telecom Commission has decided against imposing a spectrum transfer charge on Merger and Acquisition deals. (BL)
- ▶ The Reserve Bank of India is receptive to the idea of rupee payments for crude oil imports from Iran. (BL)
- ▶ India is likely to take retaliatory action against the European Union for imposing a carbon tax on airlines operating from India. (BL)
- ▶ Core sector output expanded just 3.1% in December, a sure sign that industrial expansion, too, would have slowed in the final month of 2011. It recovered to 5.9% in November after contracting 4.7% the month before. (ET)

Corporate News

- ▶ The Petroleum Ministry has asked **Reliance Industries Ltd** - operator of D6 block - to withdraw its arbitration notice on the grounds that 'as on date' there was no reason for this.(BL)
- ▶ The Centre has approved capital infusion of Rs 79 bn (including premium) into **State Bank of India** by way of preferential allotment of shares.(BL)
- ▶ **Bajaj Auto** unveiled its all-new 200cc Pulsar with a four-valve, triple spark engine. The bike comes with liquid cooling and a six-speed gear box. (BL)
- ▶ IVRCL Assets & Holdings Ltd, a subsidiary of **IVRCL Ltd**, has bagged a 127-km project of 4/6 laning of Raipur-Bilaspur section of National Highway (NH)-200 in Chhattisgarh to be executed as build, operate and transfer (Toll) project. (BL)
- ▶ **Punjab National Bank (PNB)** plans to issue shares to the Government on a preferential basis aggregating to Rs 13 bn. This plan was approved at a meeting of the board of directors of the bank. (BL)
- ▶ Starbucks Coffee Company has formed a joint venture (JV) with **Tata Global Beverages (TGB)**, the parent of **Tata Coffee**, to roll out its cafes nationwide. (BS)
- ▶ **Suzlon Group** has announced fresh orders of 80 megawatts (Mw) in India, and a total of 189 Mw of orders in Brazil and US, over a period of one month, excluding orders announced separately. (BS)
- ▶ **Coal India Ltd (CIL)** has put its long-term coal off take deal on the backburner. It is now compelled to drop the plans as most of the consumers were unwilling to accept the offers. (BS)
- ▶ **Mahindra and Mahindra** along with four other companies are keen on acquiring Saab, a bankrupt Swedish car manufacturer. (ET)
- ▶ The **Welspun Group** is lining up ambitious plans to be among the top three producers of solar power in the country in the next two-three years by producing at least 500 MW of solar power by 2014
- ▶ **Coal India** has cut prices of coal of certain grade which would hurt the revenue and profitability of the company. (Mint)

Equity

	30 Jan 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	16,863	(2.2)	9.1	(5.3)
NIFTY Index	5,087	(2.3)	10.0	(5.1)
BANKEX Index	10,969	(2.8)	19.8	(3.5)
BSET Index	5,689	(0.6)	(1.1)	(2.4)
BSETCG INDEX	9,785	(5.6)	21.3	(11.3)
BSEOIL INDEX	8,356	(2.2)	11.0	(9.0)
CNXMcap Index	6,940	(2.1)	13.5	(4.1)
BSESMCAP INDEX	6,374	(1.8)	14.8	(8.4)
World Indices				
Dow Jones	12,654	(0.1)	3.6	5.8
Nasdaq	2,812	(0.2)	7.9	4.8
FTSE	5,671	(1.1)	1.8	2.3
NIKKEI	8,793	(0.5)	4.3	(1.9)
HANGSENG	20,160	(1.7)	10.3	2.3

Value traded (Rs cr)

	30 Jan 12	% Chg - Day
Cash BSE	2,424	(10.5)
Cash NSE	11,784	(14.5)
Derivatives	77,037	10.1

Net inflows (Rs cr)

	27 Jan 12	% Chg	MTD	YTD
FII	1,364	16.4	10,524	10,524
Mutual Fund	(281)	93,700.0	(1,613)	(1,613)

FII open interest (Rs cr)

	27 Jan 12	% Chg
FII Index Futures	11,322	(8.4)
FII Index Options	30,002	4.1
FII Stock Futures	25,752	(1.2)
FII Stock Options	810	22.7

Advances / Declines (BSE)

30 Jan 12	A	B	S	Total	% total
Advances	37	697	261	995	34
Declines	164	1,350	305	1,819	62
Unchanged	2	55	41	98	3

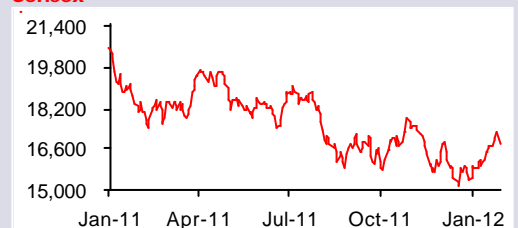
Commodity

	30 Jan 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	99.4	0.6	0.5	6.6
Gold (US\$/OZ)	1,730.9	(0.1)	10.2	0.7
Silver (US\$/OZ)	33.6	(0.8)	19.4	(2.3)

Debt / forex market

	30 Jan 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	NA	NA	NA	NA
Re/US\$	49.8	49.3	53.1	48.7

Sensex



RESULT UPDATE

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NTPC

PRICE: Rs.172

TARGET PRICE: Rs.188

RECOMMENDATION: ACCUMULATE

FY13E P/E: 13.6x

- ❑ NTPC reported muted growth in power generation during the quarter due to a combination of coal shortage and reduced purchases from SEBs. Receivables continued to be on the higher side at 77 days vs 45 days in Q3 FY11, thus highlighting the deteriorating financial position of SEBs.
- ❑ The company remains concerned on the health of the SEBs. The current hike in coal prices by Coal India Ltd would raise cost of power. While NTPC would be completely reimbursed for the increase in cost of coal but the resulting rise in power tariffs may further impair SEB financials (as they may not be able to fully pass on the tariff hike).
- ❑ As against a target of 4980 MW capacity addition in FY12, the company has so far declared commercial capacity of 1660 Mw only.
- ❑ NTPC has been consistently missing out on its capacity addition targets. As a result, the earnings are projected to grow at 7% cagr between FY11-13. Consequently, the stock has remained lackluster. The sentiment for power utilities has been further dampened by deteriorating state of SEB financials and domestic coal shortages. We downgrade rating from BUY to Accumulate with a revised target price of Rs 188 based on DCF. Thus, at our target price, the P/BV works out to 1.9x FY13 BV.
- ❑ Concerns: continued to delay in capacity additions and fuel supply risk.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	549	623	691
Growth (%)	18.4	13.3	10.9
EBITDA	153.2	139.6	156.5
EBITDA margin (%)	27.9	31.5	31.2
PBT	120	125	139
Net profit	91	95	104
EPS (Rs)	11.0	11.5	12.7
Growth (%)	4.3	4.4	9.9
CEPS (Rs)	14.1	14.9	16.3
BV (Rs/share)	82.3	89.2	96.8
Dividend / share (Rs)	4.0	4.0	4.4
ROE (%)	14.0	13.4	13.6
ROCE (%)	13.0	11.8	11.5
Net cash (debt)	-155.3	-357.5	-519.3
NW Capital (Days)	48.3	75.5	78.1
EV/EBITDA (x)	11.0	13.7	13.2
P/E (x)	15.6	14.9	13.6
P/Cash Earnings	12.2	11.6	10.5
P/BV (x)	2.1	1.9	1.8

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3 FY12	Q3 FY11	YoY (%)
Net sales	153,323	134,213	14
Depreciation written back	10.1	752.1	-99
Other op income	510.9	4673.2	-89
Expenditure	124769	96635	29
-Fuel Cost	107933	83386	29
-Staff Cost	7188	6885	4
provisions	486	54	801
-Others	9162	6310	45
Operating profit	29075	43003	-32
Depreciation	7560	5986	26
Gross profit	21514	37017	-42
Interest	4496	4932	-9
Other income	8610	2021	326
PBT	25628	34106	-25
Tax	4324	10392	-58
-current	3288	8725	-62
-deferred	1036	1667	-38
PAT	21304	23715	-10
Ratios			
Fuel cost/Net sales (%)	70.4	62.1	
Staff cost/Net sales (%)	4.7	5.1	
Other expenditure to sales (%)	6.0	4.7	
EBITDA/Sales (%)	19.0	32.0	
Net profit margin (%)	13.9	17.7	

Source: Company

Highlights

- Power generation volume remained muted in the quarter at 56 bn units, more or less on a yoy basis partly due to coal availability issues combined with lower offtake by SEBs. Most of the company's gas based units operated at lower PLF due to low demand from state distribution utilities.
- For the current fiscal, the company had signed an MOU with the government for the generation of 235 bn units, an increase of 6% over FY11. However, generation in the 9M FY12 has been at 161 bn units, which is only marginally higher.
- Revenue growth for the quarter stood at 14% yoy aided by higher average tariffs. Sales were lower by Rs 1.55 bn pertaining to previous years. Further, sales were lower by Rs 4.07 bn on account of income tax recoverable from clients.
- There has been an increase in average realization at Rs 2.94 per unit vs Rs 2.59 per unit for Q3 FY11, partly due to higher blending of imported coal.
- Overall tax rate stood at 16.9% vs 30.47% in Q3 FY11. The decline in tax is due to writeback of tax provided for earlier years to the tune of Rs 3.1 bn. Adjusted for this, tax rate would have been 29%. The company has guided for effective rate of close to 21-23%, as the company expects to be taxed at normal rate. Hence, the ROE will be grossed up at normal rate.
- At the end of Q3 FY12, receivables stood at Rs 125 bn implying 77 days of sales vs 45 days at the end of Q3FY11.
- The NTPC installed capacity at group level stands at 36 GW and it has currently 12933 MW of projects under various stages of construction.
- So far as the bulk tender for 660 MW is concerned, the Supreme Court has completed the hearing on Jan 11, 2011 and a verdict is expected soon.

Capacity addition update

- During the quarter, the company commenced commercial operation of unit 1 of 660 MW at Sipat. This unit was originally scheduled for completion in FY11. The unit II of 660 MW at the same location was also commissioned in Q3FY12.
- So far as capacity addition in FY12 is concerned, the company has a plan of adding 4320 MW consisting of 1320 MW at Sipat, 500 MW each at Simhadri and Mauda and 1000 MW each at Vallur and Jhajjar. Out of this, the completion of Mauda unit is on best-efforts basis. The company has in the 9MFY12 achieved Commercial Operations for 1660 MW consisting of Sipat I 660 MW, Simhadri III 500 MW and Jhajjar I 500 MW.
- The company is contemplating reworking of capacity addition targets. It now plans to add 4980 MW (660 MW spillover from FY11) in FY12. Instead of 1000 MW each at Vallur and Jhajjar, the company plans to commission 500 MW each at these locations. The balance 1000 MW would be contributed by Vindhychal and Rihand. In view of the company's past track record of missing out on capacity addition targets, we expect the company to add 3820 MW in FY12.

Power Sector Update

- **Offtaker Risk** - The deteriorating financials of SEBs have been in focus lately. As per the PFC report on State Utilities, the total income excluding subsidy for utilities selling directly to consumers increased from Rs.1,716 bn in the year 2008-09 to Rs. 1909 bn. in the year 2009-10 showing a growth of 11.25%. Aggregate aggregate losses for all the utilities (without accounting for subsidy) were of the order of Rs.319 bn. in the year 2007-08 and increased to Rs.537 bn during 2008-09 and further to Rs.635 bn during the year 2009-10.
- The aggregate cash losses (on revenue and subsidy realized basis) for all the utilities increased from Rs.89 bn. in the year 2007-08 to Rs.332 bn. in 2008-09 and to Rs. 384 bn during the year 2009-10.

- 2008-09 saw a sharp deterioration in profitability for SEBs as during this year, the utilities had a sizeable purchase of merchant power at high rates. However, in response to high-priced merchant power, most SEBs failed to revise their power tariffs resulting in increase in gap between the price of power purchased and that of power sold.
- Five states (UP, TN, Raj, MP and AP) accounted for 113% of the total cash losses indicating that not all state utilities are bleeding.
- Debt equity ratio on an aggregate level worsened to 20.8x with the utilities relying mainly on bank borrowings for meeting their funding needs.
- **Fuel Risk** - On the fuel risk, shortfalls in domestic coal supply have emerged as a major speed-breaker to electricity production.

Valuation and Recommendation

We recommend ACCUMULATE on NTPC with a price target of Rs.188

- NTPC is currently trading at 13.6x and 1.8x on FY13 earnings and BV basis respectively.
- NTPC has been consistently missing out on its capacity addition targets. As a result, the earnings are projected to grow at 7% cagr between FY11-13. Consequently, the stock has remained lackluster. The sentiment for power utilities has been further dampened by deteriorating state of SEB financials and domestic coal shortages. We downgrade rating from BUY to Accumulate with a revised target price of Rs 188 based on DCF. Thus, at our target price, the P/BV works out to 1.9x FY13 BV.

RESULT UPDATE

Saday Sinha

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+91 22 6621 6312**ALLAHABAD BANK****PRICE: Rs.156**
TARGET PRICE: Rs.214**RECOMMENDATION: BUY**
FY13 P/E: 3.7x, P/ABV: 0.7x**Q3FY12 results: earnings supported by strong NIM & lower tax rate; however, slippages & incremental restructuring remained at elevated levels**

- ❑ Net interest income (NII) grew 31.3% in Q3FY12 on back of 30 bps expansion in NIM (YoY), despite moderate loan growth (17.0% YoY). Net profit was also strong and grew at 34.5% YoY mainly due to robust non-interest income (35.2% YoY) and lower tax payment despite higher operating expenses during Q3FY12.
- ❑ NIM came at 3.73% during Q3FY12 (3.60% in 9MFY12), ahead of our expectations on back of sharper rise in blended yield on assets (117 bps YoY) vis-à-vis 84 bps rise in cost of funds. Healthy fee-income growth continues; total non-interest income came higher on back of strong recovery from W/O accounts
- ❑ Loan book grew at moderate pace (17.0% YoY) due to modest growth in agriculture (10.1% YoY); while MSME and retail segments witnessed strong growth. During the same period, deposit mobilization has been relatively stronger (20.1% YoY) - out of this current account floats declined marginally (5% YoY; 0.7% QoQ), while saving deposits saw 14.4% YoY growth. Although CASA share declined by 265 bps YoY, it remained stable QoQ.
- ❑ Asset quality saw marginal spike; slippages came at 2.5% (annualized basis), higher than last two quarters (0.6% in Q1FY12 and 2.2% in Q2FY12). Management has indicated that most of the delinquencies have come from the priority sector. On restructuring front, Rs.10.5 bn worth of loans went through restructuring process during Q3FY12 taking total cumulative restructured book to Rs.38.23 bn.
- ❑ We are modeling earnings to grow 18.2% CAGR during FY11-13E, while return ratios are also expected to be healthy (RoE: ~21% during FY12-13E). At the CMP of Rs.156, the stock is trading reasonable at 3.7x its FY13E earnings and 0.7x its FY13E ABV. We retain BUY rating on the stock with revised TP of Rs.214 (Rs.225 earlier) based on 1.0x of its FY13E adjusted book value.

Result Performance

(Rs mn)	Q3FY12	Q3FY11	YoY (%)
Interest on advances	29,270.5	21,309.4	37.4
Interest on Investment	9,352.2	7,117.2	31.4
Interest on RBI / banks' balances	382.3	108.3	253.0
Other interest	113.7	19.6	NM
Total Interest earned	39,118.7	28,554.5	37.0
Interest expenses	25,313.7	18,038.1	40.3
Net interest income	13805.0	10516.4	31.3
Other income	3,484.1	2,576.4	35.2
Net Revenue (NII + Other income)	17,289.1	13,092.8	32.1
Operating Expenses	6,989.5	5,208.5	34.2
Payments to / Provisions for employees	4,898.0	3,195.9	53.3
Other operating expenses	2,091.5	2,012.6	3.9
Operating profit	10,299.6	7,884.3	30.6
Provisions & contingencies	4,212.4	2,358.8	78.6
Provision for taxes	482.9	1,367.5	-64.7
Net profit	5,604.3	4,158.0	34.8
EPS (Rs.)	11.77	9.31	26.4

Source: Company

Core earnings came better than our expectations; NIM also came ahead of expectations

Net interest income (NII) grew 31.3% to Rs.13.81 bn in Q3FY12 on back of 30 bps expansion in NIM (YoY), despite moderate loan growth (17.0% YoY). NIM came at 3.73% during Q3FY12 (3.60% in 9MFY12), ahead of our expectations on back of sharper rise in blended yield on assets (117 bps YoY) vis-à-vis 84 bps rise in cost of funds.

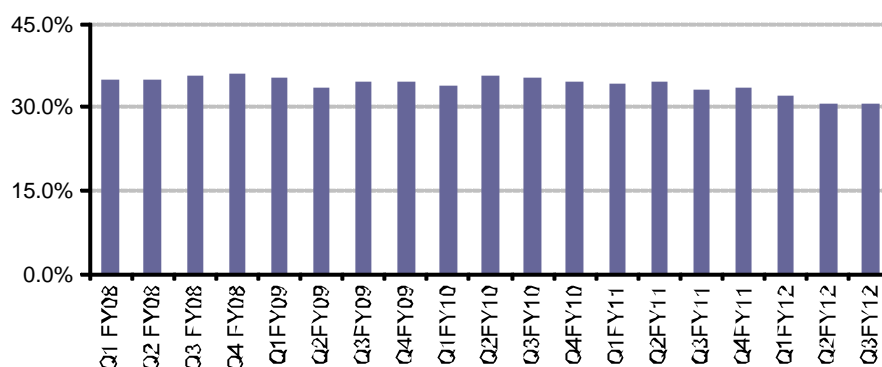
Net profit was also strong at Rs.5.60 bn, a growth of 34.5% YoY mainly due to robust non-interest income (35.2% YoY) and lower tax payment despite higher operating expenses during Q3FY12.

Moderate growth in loan book while CASA mix remained stable NIM reported at 3.73% for Q3FY12, ahead of expectations

Loan book grew at moderate pace (17.0% YoY) due to modest growth in agriculture (10.1% YoY); while MSME and retail segments grew at 30.2% and 20.7%, respectively, during Q3FY12.

During the same period, deposit mobilization has been relatively stronger (20.1% YoY) - out of this current account floats declined marginally (5% YoY; 0.7% QoQ), while saving deposits saw 14.4% YoY growth. Although CASA share declined by 265 bps YoY, it remained stable QoQ. During last couple of quarters, CASA share declined due to rise in spread between FD rates and SB rates. We are forecasting CASA share to remain in the range of 31-32% levels during FY12-13E and this is likely to help the bank in sustaining healthy NIM, going forward.

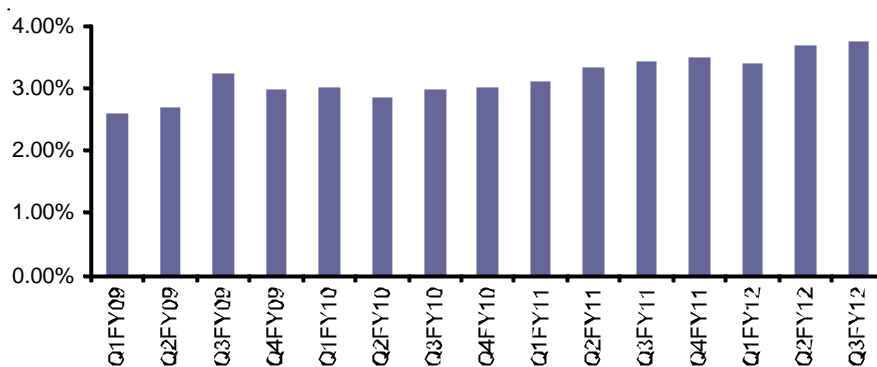
Trend in CASA (%)



Source: Company

NIM came at 3.73% during Q3FY12, better than our expectations. It expanded by ~30 bps YoY (5 bps QoQ) on back of sharper rise in blended yield on assets (117 bps YoY) vis-à-vis 84 bps rise in cost of funds.

Blended yield on assets improved from 9.34% in Q3FY11 to 10.51% in Q3FY12 on back of improvement in both yield on advances (163 bps YoY) as well as yield on investments (44 bps YoY).

Trends in NIM (%)

Source: Company

Healthy fee-income growth continues; total non-interest income came higher on back of strong recovery from W/O accounts.

Fee-based income was healthy at 22.4% YoY mainly driven by robust traction in processing fees as well as LC/BG/bills segments. However, strong non-interest income came on the back of robust recovery from W/O accounts (Rs.980 mn in Q3FY12 as against Rs.644 mn in Q3FY11)

Trends in Non-interest income

(Rs bn)	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY11	YoY (%)	QoQ (%)
Fee Income (CEB & Forex)	2.13	1.74	3.00	2.07	2.57	2.13	22.4%	-17.1
Profit on sale of Investments	0.38	0.20	0.13	0.26	0.07	0.21	5.0%	200.0
Others	0.94	0.63	1.56	0.53	0.46	1.15	82.5%	150.0
Total non-Interest income	3.45	2.58	4.70	2.86	3.09	3.48	35.8%	12.6

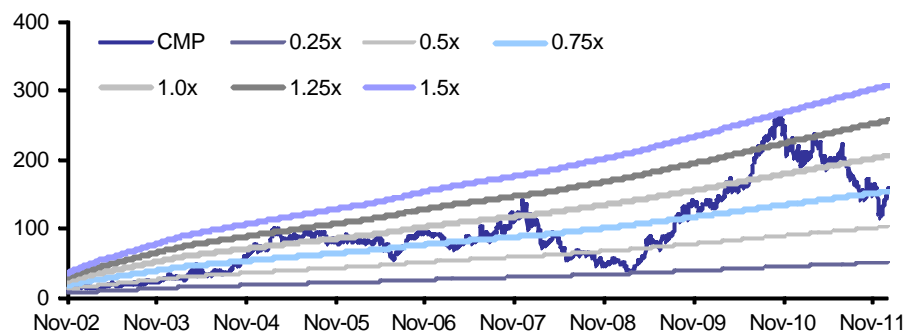
Source: Company

Slippage came at 2.5% (on annualized basis), higher than last two quarters; total stressed portfolio stands at ~5.7% (gross NPA & restructured book), which is slightly lower than its peers.

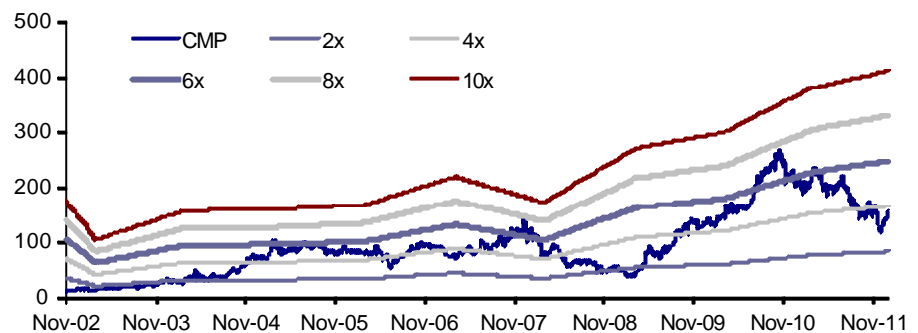
Asset quality saw marginal spike - sequentially, gross NPA and net NPA rose 10.0% and 19.9%, respectively. In percentage terms also, gross NPA and net NPA deteriorated to 1.86% and 0.79%, respectively, at the end of Q3FY12 as against 1.77% and 0.69%, respectively, witnessed a quarter earlier.

Slippage came at 2.5% (on annualized basis), higher than last two quarters (0.6% in Q1FY12 and 2.2% in Q2FY12). Management has indicated that most of the delinquencies have come from the priority sector. There has been one corporate account (Rs.1.2 bn) from footwear industry which slipped during the quarter.

On restructuring front, Rs.10.5 bn worth of loans went through restructuring process during Q3FY12 by taking total cumulative restructured book to Rs.38.23 bn (Q3FY12). Now, total stressed portfolio stands at ~5.7% (gross NPA & restructured book), which is largely in line with the industry average.

Rolling 1-year forward P/ABV

Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band

Source: Company, Kotak Securities - Private Client Research

Valuations and recommendations

We recommend BUY on Allahabad bank with a price target of Rs.214

We are modeling earnings to grow 18.2% CAGR during FY11-13E, while return ratios are also expected to be healthy (RoE: ~21% during FY12-13E). Although risk persists with its stressed portfolio (~5.7%: gross NPA & restructured book), it has performed better than its peers.

At the CMP of Rs.156, the stock is trading reasonable at 3.7x its FY13E earnings and 0.7x its FY13E ABV. We are maintaining BUY rating on the stock with revised TP of Rs.214 (Rs.225 earlier) based on 1.0x of its FY13E adjusted book value.

Key data

(Rs bn)	2010	2011	2012E	2013E
Interest income	83.69	110.15	153.69	174.98
Interest expense	57.19	69.92	100.99	117.00
Net interest income	26.50	40.23	52.70	57.98
Growth (%)	22.8%	51.8%	31.0%	10.0%
Other income	15.16	13.70	12.99	14.99
Gross profit	25.48	30.55	38.83	43.11
Net profit	12.06	14.23	18.06	19.89
Growth (%)	56.9%	18.0%	26.9%	10.1%
Gross NPA (%)	1.7	1.7	2.0	2.0
Net NPA (%)	0.7	0.8	0.9	0.9
Net interest margin (%)	2.9	3.4	3.5	3.3
CAR (%)	13.6	13.0	12.7	12.4
RoE (%)	22.2	21.0	21.8	20.6
RoAA (%)	1.1	1.0	1.1	1.0
Dividend per share (Rs)	5.5	6.0	6.5	7.5
EPS (Rs)	27.0	29.9	37.9	41.8
Adjusted BVPS (Rs)	140.6	163.2	186.1	214.5
P/E (x)	5.8	5.2	4.1	3.7
P/ABV (x)	1.1	1.0	0.8	0.7

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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INDIAN BANK

PRICE: Rs.214

TARGET PRICE: Rs.270

RECOMMENDATION: BUY

FY13E P/E: 4.2x, P/ABV: 1.0x

Q3FY12 Results: Core performance came ahead of expectations, however asset quality deteriorated.

- ❑ Reported earnings came slightly ahead of our expectations - NII growth came at 12.8% on back of healthy growth in loan book (19.1% YoY) despite 26 bps (YoY) decline in NIM (3.58%). Net profit also came slightly higher than our expectations (Rs.5.26 bn; 7.0% growth YoY) on back of reversal of Deferred Tax Liability (DTL) worth of Rs.523 mn along with moderate growth in non-interest income (13.1%); this has come despite sharp rise in provisions & contingencies during Q3FY12.
- ❑ Loan growth continued to grow at moderate pace for the fourth quarter in a row (19.1% YoY in Q3FY12 as compared to 28-29% YoY growth witnessed only till few quarters ago); Contraction in NIM (QoQ) came on the expected lines mainly on the back of sharp rise in cost of funds (150 bps) vis-à-vis yield on advances (131 bps) as portfolio mix has changed. We are expecting NIM to come at 3.50% and 3.30% during FY12E and FY13E, respectively as compared to 3.75% witnessed during FY11.
- ❑ Asset quality deteriorated during Q3FY12 - in absolute terms, gross NPA and net NPA rose 13.6% (QoQ) and 16.7% (QoQ), respectively. Despite of this spike, gross NPA and net NPA stand at comfortable levels - 1.35% and 0.80%, respectively. The bank has been following conservative provision policy and its PCR stands at 76.5% which is healthy in our view and could provide cushion to its earnings during any rainy days in the future.
- ❑ At the CMP of Rs.214, the stock is trading at 4.2x its FY13E earnings and 1.0x its FY13E ABV. We are modeling earnings to grow 13.1% CAGR during FY11-13E, while return profile is also expected to remain healthy (RoA: ~1.4%, RoE: ~21.0%) during next two years. Hence, we are maintaining BUY rating on the stock with revised TP of Rs.270 (Rs.290 earlier) based on 1.2x of its FY13E adjusted book value.

Result Performance

(Rs mn)	Q3FY12	Q3FY11	YoY (%)
Interest on advances	24,941.6	18,029.0	38.3
Interest on Investment	7,253.2	5,825.0	24.5
Interest on RBI/ banks' balances	45.3	65.0	-30.4
Other interest	-	-	
Total Interest earned	32,240.1	23,919.0	34.8
Interest expenses	20,539.8	13,542.0	51.7
Net interest income	11,700.3	10,376.9	12.8
Other income	2,812.5	2,486.9	13.1
Net Revenue (NII + Other income)	14,512.8	12,863.8	12.8
Operating Expenses	5,397.2	4,744.8	13.7
Payments to / Provisions for employees	3,720.6	3,327.9	11.8
Other operating expenses	1,676.6	1,416.9	18.3
Operating profit	9,115.6	8,119.0	12.3
Provisions & contingencies	2,361.3	535.5	340.9
Provision for taxes	2,018.4	2,670.5	-24.4
Extraordinary items	(523.3)	-	
Net profit	5259.3	4912.9	7.0
EPS (Rs.)	12.24	11.16	9.7

Source: Company

Reported earnings came slightly ahead of our expectations; NIM remained healthy at 3.58%

Indian bank's reported earnings came slightly ahead of our expectations. Nil growth came at 12.8% to Rs.11.7 bn in Q3FY12 on back of healthy growth in loan book (19.1% YoY) despite 26 bps (YoY) decline in NIM (3.58%).

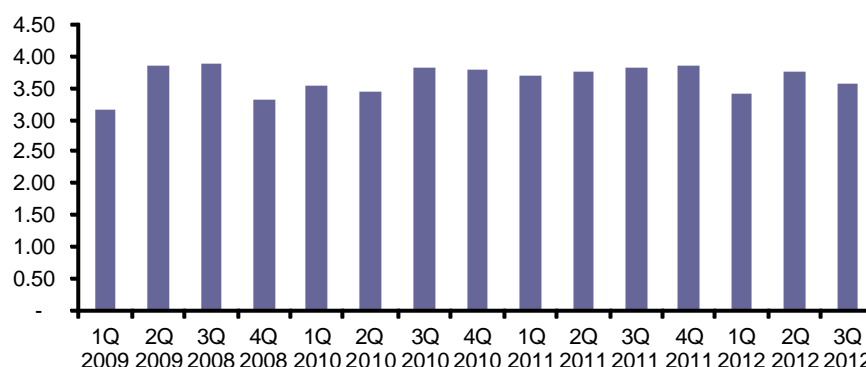
Net profit also came slightly higher than our expectations (Rs.5.26 bn; 7.0% growth YoY) on back of reversal of Deferred Tax Liability (DTL) worth of Rs.523 mn along with moderate growth in non-interest income (13.1%); this has come despite sharp rise in provisions & contingencies during Q3FY12.

Loan growth continued to moderate for the fourth quarter in a row; focus has shifted to large corporate during last few quarters.

Loan growth continued to grow at moderate pace for the fourth quarter in a row (19.1% YoY in Q3FY12 as compared to 28-29% YoY growth witnessed only till few quarters ago). Barring agri (25.8% YoY) and corporate segments (19.6% YoY), all other segments witnessed muted growth - retail (10.3% YoY) and MSME (6.1% YoY). During the same period, overseas book witnessed strong growth (60.7% YoY; 11.9% QoQ), partly aided by depreciating rupee.

Relatively moderate growth in deposits (17.8% YoY) came on the back of muted traction in current account floats (1.1% YoY; decline of 5.6% QoQ) as well as saving deposits (13.5% YoY). This has resulted into lower CASA mix (30.2%; contraction of 270 bps YoY) during Q3FY12; while CASA share saw marginal improvement QoQ due to healthy sequential traction in saving deposits (6.1% QoQ).

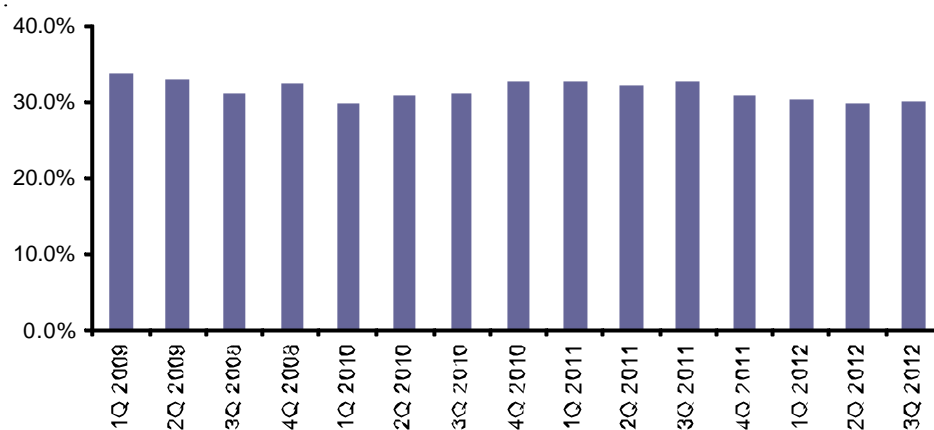
Trends in CASA (%)



Source: Company

NIM saw some contraction - 18 bps QoQ to 3.58% during Q3FY12 (3.57% during 9MFY12) but it was on the expected lines. This came on the back of sharp rise in cost of funds (150 bps) vis-à-vis yield on advances (131 bps) mainly due to change in portfolio mix (recent focus on large corporate segments where yield is slightly lower). Apart from this, bank is also undergoing through last leg of deposit re-pricing which has led to rise in its cost of deposits.

We are expecting NIM to come off from the current levels over next few quarters, as its weak liability franchise will not be able to shield them from rising funding costs. We are expecting NIM to come at 3.5% and 3.30% during FY12E and FY13E, respectively as compared to 3.75% witnessed during FY11.

Trends in NIM (%)

Source: Company

Asset quality deteriorated during Q3FY12; we are modeling higher slippage (1.8%) during FY12 & FY13E as compared to 1.5% witnessed during FY11.

Asset quality deteriorated during Q3FY12 - in absolute terms, gross NPA and net NPA rose 13.6% (QoQ) and 16.7% (QoQ), respectively. Despite of this spike, gross NPA and net NPA stand at comfortable levels - 1.35% and 0.80%, respectively at the end of Q3FY12.

The bank has been following conservative provision policy. Apart from providing 100% for unsecured book, it provides 25% for substandard as against 20% provided during FY11. They are providing as per the RBI policy for all D1 and D2 categories. Its PCR stands at 76.5% which is healthy in our view and could provide cushion to its earnings during any rainy days in the future.

We have modeled higher slippage (1.8%) during FY12E & FY13E as compared to 1.5% witnessed during FY11.

Valuations and recommendation

We recommend BUY on Indian Bank with a price target of Rs.270

At the current market price of Rs.214, the stock is trading at 4.2x its FY13E earnings and 1.0x its FY13E ABV. We are modeling earnings to grow 13.1% CAGR during FY11-13E, while return profile is also expected to remain healthy (RoA: ~1.4%, RoE: ~21.0%) during next two years.

Hence, we are maintaining **BUY** rating on the stock with revised TP of Rs.270 (Rs.290 earlier) based on 1.2x of its FY13E adjusted book value.

Key data

(Rs. bn)	2010	2011	2012E	2013E
Interest income	77.14	93.61	124.16	141.79
Interest expense	45.53	53.25	78.15	91.25
Net interest income	31.61	40.36	46.01	50.55
Growth (%)	21.2%	27.7%	14.0%	9.9%
Other income	13.16	11.82	11.71	14.11
Gross profit	27.47	32.92	36.07	41.09
Net profit	15.55	17.14	18.74	21.92
Growth (%)	24.9%	10.2%	9.3%	17.0%
Gross NPA (%)	0.8	1.0	1.3	1.3
Net NPA (%)	0.2	0.5	0.8	0.6
Net interest margin (%)	3.5	3.7	3.5	3.3
CAR (%)	12.2	12.8	13.0	13.0
RoE (%)	24.0	22.4	20.5	21.3
RoA (%)	1.7	1.5	1.4	1.4
Dividend per share (Rs)	6.5	7.5	7.5	7.5
EPS (Rs)	36.2	39.9	43.6	51.0
Adjusted BVPS (Rs)	151.3	175.2	209.0	222.4
P/E (x)	5.9	5.4	4.9	4.2
P/ABV (x)	1.4	1.2	1.0	1.0

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
30-Jan	Aroma Ent	Aashish Developer	B	320,000	14.0
30-Jan	Aroma Ent	Kanchanbhai Baldevbhai Patel	S	145,000	14.0
30-Jan	Aroma Ent	Kandarp Kanchanbhai Patel	S	83,000	14.0
30-Jan	Aroma Ent	Nishith Babulal Shah	S	83,800	14.0
30-Jan	Arunjyoti Ent	Anupam Narain Gupta	B	30,000	27.1
30-Jan	Arunjyoti Ent	Puran Chand Choudhary	B	30,000	27.0
30-Jan	Arunjyoti Ent	Venkat Naresh Majeti	S	32,500	27.0
30-Jan	Banas Finance	Pondurai	S	707,500	55.2
30-Jan	Banas Finance	Pondurai Balaselvi	S	694,890	55.2
30-Jan	Control Print-\$	Shailesh Chandak Huf	B	51,000	33.9
30-Jan	Control Print-\$	Harish Bhagirath Chandak	S	51,000	33.9
30-Jan	Cranex	Manoj Sachdeva	S	26,810	12.1
30-Jan	Dhvanil Chem	Jadav Lalit Ratilal	S	39,280	36.1
30-Jan	Essen Supp	Shiv Shankar Resources	B	34,200	58.4
30-Jan	Essen Supp	Abha Sultania	S	32,500	58.3
30-Jan	Essen Supp	Brij Mohan Gupta	S	35,000	58.4
30-Jan	Garware Poly	The Investment Trust Of India Ltd	B	590,000	122.0
30-Jan	Garware Poly	Orange Mauritius Invetments Ltd	S	590,000	122.0
30-Jan	Gujarat Medi	Kinnari Mukund Shah	S	35,000	18.2
30-Jan	Indian Hume	The Investment Trust Of India Ltd	B	800,000	108.0
30-Jan	Indian Hume	Orange Mauritius Invetments Ltd	S	800,000	108.0
30-Jan	Kanchan Intl	Mahan Trading Pvt Ltd	B	34,000	79.5
30-Jan	Kanchan Intl	Karamshibhai Mangukiya	S	25,000	79.5
30-Jan	Kay Power	Bampsl Securities Ltd	B	253,450	13.1
30-Jan	Milkfood	Sudha Commercial Company Ltd	B	31,990	77.8
30-Jan	Milkfood	Pinnacle Trades And Investments	S	32,000	77.8
30-Jan	Mudit Finlease	Decent Financial Services Pvt Ltd	B	28,500	245.0
30-Jan	Pasupati Fin	Advance India Shares & Securities	B	100,000	31.5
30-Jan	Pasupati Fin	Sitadevi Arunkumar Tulsian	B	50,000	31.8
30-Jan	Pasupati Fin	Pasupati Olefin Ltd	S	150,000	31.6
30-Jan	PFL Infotech	Prem Chand Chordia	B	95,981	64.1
30-Jan	PFL Infotech	Sagar Ratna Hotels Pvt Ltd	S	69,876	64.2
30-Jan	Polytex India	Janak Chimanlal Dave	B	67,528	136.1
30-Jan	Prime Sec	Jaroli Vincom Pvt Ltd	B	1,975,000	14.9
30-Jan	Prime Sec	GKK Capital Markets Pvt Li	S	1,975,000	14.9
30-Jan	Prism Info	Leena Investments Consultancy Llp	B	200,000	21.9
30-Jan	Prism Info	Vinod Ratilal Shah	B	150,000	21.9
30-Jan	Prism Info	Umesh Purushottam Chamdia	S	300,000	21.9
30-Jan	Scope Ind	Amit S Soni	B	40,000	15.8
30-Jan	Scope Ind	Umadevi Alluri	S	63,719	15.9
30-Jan	Transchem-\$	Grandeur Corporation Ltd	B	175,000	15.0
30-Jan	Transchem-\$	Hina Milind Patil	S	180,000	15.0
30-Jan	Upsurge Invest	Akruti Tradvest Pvt Ltd	B	300,000	42.3
30-Jan	Upsurge Invest	Sanjaykumar Nandkishore Khemani	S	299,400	42.3
30-Jan	Vakrangee Soft-\$	Vakrangee Holdings Pvt Ltd	B	150,000	365.0
30-Jan	Vakrangee Soft-\$	Dream River Neral Developers	S	150,000	365.0
30-Jan	Vax Housing	Subhkaran Tilokchand Agarwal	B	100,000	14.9
30-Jan	Vax Housing	Banwarilal Hanumanaram Saharan	S	50,000	14.9
30-Jan	Vax Housing	Champalal Gopiram Agarwal	S	50,000	14.9
30-Jan	VB Desai	Snehalatha Singhi	B	25,000	11.0

Source: BSE

Forthcoming events

Company/Market

Date	Event
31-Jan	Aban Offshore, BASF India, Birla Corp, Central Bank, Century Tex, Crompton Greaves, Dabur India, Gateway Distriparks, ICICI Bank, IDBI Bank, IPCA Labs, KEC Intl, NMDC, PNB, PTC India, Siemens, Silverline Tech, Titan Ind, TVS Motor, earnings expected
1-Feb	Ashok Leyland, Finolex Cables, Satyam Comp, Tube Investment, Uco Bank, Welcorp earnings expected
2-Feb	Andhra Bank, Chennai Petro, Corporation Bank, EIH, Escorts, Essar Ports, Gillette India, Hexaware Tech, Manappuram Finance, Marico, Piramal Health, Procter & Gamble, Rashtriya Chem, Thermax, Whirlpool earnings expected

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Sun Pharma	534	0.9	0.6	1.5
TCS	1,112	0.3	0.5	1.3
Bajaj Auto	1,550	0.7	0.5	0.4
Losers				
Reliance Ind	795	(3.1)	(14.2)	4.8
ICICI Bank	852	(4.0)	(13.6)	4.4
L&T	1,305	(5.5)	(13.5)	2.1

Source: Bloomberg

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